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Outlook Today

November 7, 2003

The Next Generation of Foreign Aid

by [Alan W. Dowd](#)

Since September 11, 2001, the Bush administration has made no secret about its willingness—and America's capacity—to tear down the vast infrastructure of terrorism and to reshape the world through the destructive force of arms. Less publicized has been the administration's readiness to reshape the world through the creative force of American ideas and wealth. The Millennium Challenge Corporation (MCC) is the administration's bid to do exactly that.

The MCC represents, quite simply, the next generation of U.S. foreign aid. Although the MCC has gained little attention, versions of the MCC plan have passed both houses of Congress and will be hammered out in the coming days in a House-Senate conference committee.

So why has the Bush foreign-policy team concluded that it's time to usher in the next generation of foreign aid? As my colleague Carol Adelman has found in her extensive research, U.S. agencies spend some \$10 billion in official development assistance annually and another \$13 billion in other forms of aid. Not all of it is wasted, of course. There is no doubt that such humanitarian assistance has rescued millions from famine and disease. Indeed, at \$2.5 billion, the U.S. government donates more food aid per year than any other country on earth.

However, U.S. government aid has achieved precious little in the form of lasting, substantive change—the kind of systemic reforms that over time should make foreign assistance less necessary. As a recent study conducted by a subcommittee of the US House detailed, Washington has distributed \$144 billion in aid to 97 of the world's poorest countries since 1980. In the intervening 23 years, the median per capita GDP of those countries has actually fallen.

Enter the MCC. Tired of simply throwing money at symptoms, President George W. Bush wants America's foreign-aid program to target the root causes of poverty in those corners of the world that are perpetually developing, but seemingly never fully developed. In Bush's view, "We must include every African, every Asian, every Latin American, every Muslim, in an expanding circle of development."

Once fully funded in 2006, the MCC will administer a \$5-billion Millennium Challenge Account. This is in addition to existing foreign-aid spending, which means the Millennium program will amount to a 50-percent increase in official development assistance, among the largest in U.S. history. The MCC will task fewer than 100 employees to review and distribute grant requests from some of the world's poorest countries—initially, nations with annual per-capita incomes below \$1,435. A larger pool of developing nations with per-capita incomes of up to \$2,975 will be invited to participate in follow-on years. More than 110 countries will be eligible by 2006.

Unlike many aid programs, the MCC is not a hand-out program. Applicant countries must develop and submit proposals for aid, along with detailed plans for liberalizing their societies. MCC aid will be based solely on how an applicant scores on a rigorous test of social-political progress. Applicants will be ranked according to 16 separate indicators, grouped under three broad headings: *Ruling Justly*, *Investing in People*, and *Economic Freedom*. These performance indicators will rate everything from an applicant's respect for civil liberties and political rights, to its fiscal policy and openness to trade, to its internal markets and regulatory climate, to its immunization statistics and investment in education. The MCC also will scour applicant countries for any signs of corruption.

By rewarding those nations that are striving to transition from statism and dependency to economic and

political liberalization, Bush believes MCC grants will build “the infrastructure of democracy.” Indeed, countries that hope to tap into this new source of aid will have to make room for civil society—that amorphous zone of space where liberty flourishes and where places of worship, businesses, charities, associations, unions, and political parties buffer the individual from the state.

Contrary to what some have argued since September 11, 2001, the peoples of the developing world are just as capable of building civil society and practicing democracy as their neighbors in the developed world. As Bush has argued, “It is presumptuous and insulting to suggest that a whole region of the world...is somehow untouched by the most basic aspirations of life.”

Without question, the MCC represents an experiment; however, it is by no means a radical or risky experiment. Since Millennium grants will be offered in addition to existing U.S. foreign aid, the developing world will not be negatively impacted if the experiment fails. Of course, the lives and futures of those who live there could be dramatically improved if the experiment succeeds.

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